



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Bicentennial Union High School District No. 76

Year Ended June 30, 2002



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

September 17, 2004

Governing Board
Bicentennial Union High School District No. 76
P.O. Box 519
Salome, AZ 85348

Members of the Board:

In December 2003, we received the District's Uniform System of Financial Records (USFR) Compliance Questionnaire and management letter for the year ended June 30, 2002. Since this is the most current Questionnaire and letter available, we reviewed them to determine if the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District has not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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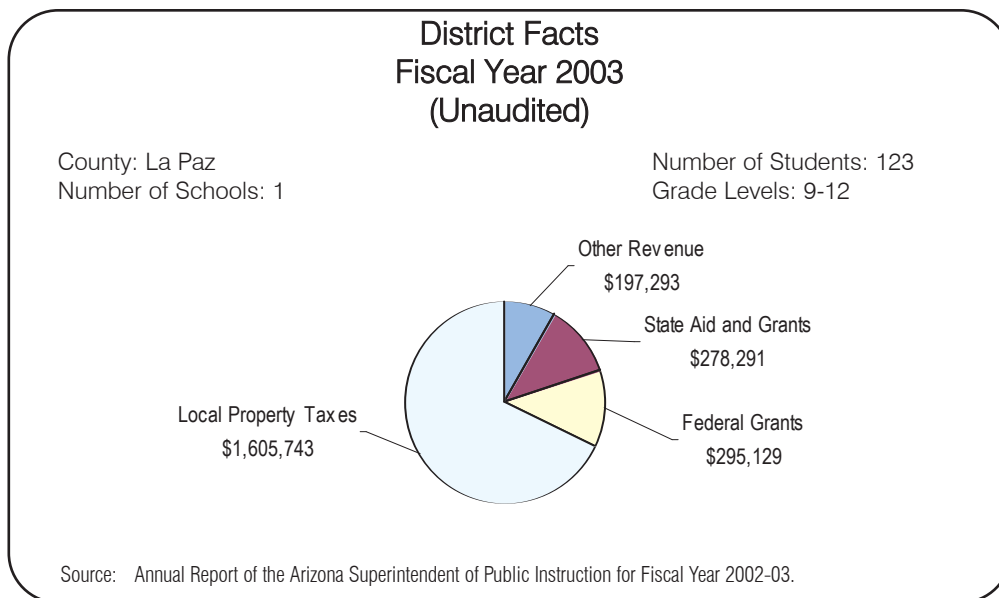
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INTRODUCTION

Bicentennial Union High School District No. 76 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$2.3 million it received in fiscal year 2002-03 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's USFR Compliance Questionnaire and management letter for the year ended June 30, 2002, the most current information available, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District should maintain complete accounting records

The District's accounting system was ineffective since revenues and cash balances were not recorded.

An effective accounting system is essential to provide accurate financial information to legislators, district governing boards, district management, and the public. Governing boards use such information to develop general policies and procedures. District management uses the information to plan and conduct the District's daily financial affairs, and the public uses such information to determine how well the District is meeting its stewardship responsibilities. However, the District's accounting records did not include all transactions. Specifically, the District did not use an accounting software system to track revenues, expenditures, and cash balances. Instead, the District maintained a series of spreadsheets for expenditures. Because of its inadequate accounting records, the District could not reconcile its accounting records to the County School Superintendent's (CSS) or the County Treasurer's records. Additionally, prenumbered and numerically controlled journal entry forms were not always used.

Recommendations

The following procedures would help ensure that the District has complete accounting records:

- Maintain journals and a general ledger. The journals provide a chronological, detailed record of daily financial transactions and support balances in the general ledger accounts. The general ledger is the summary of financial transactions and the basis for preparing trial balances and financial reports and should be organized using the USFR Chart of Accounts §III.
- Use prenumbered and numerically controlled journal entry forms.
- Reconcile the District's records of cash balances by fund monthly, and its records of revenues, expenditures, and cash balances by fund, program, function, and object code at fiscal year end to those of the CSS. Prepare written reconciliations and make all necessary corrections.
- Review the CSS' reconciliation of the District's cash balances to the County Treasurer's records at least monthly and resolve any differences noted.

The District should separate recording and reconciling responsibilities

Essential to an effective accounting system is a system of internal control that defines specific employee responsibilities, provides adequate internal checks and balances, and ensures that the District maintains sufficient supporting records to safeguard assets and provide accurate accounting records. To maintain proper internal control, employee responsibilities should be adequately separated to help ensure that no one employee maintains too much control. However, the District did not accomplish this, as cash receipt, expenditure processing, recordkeeping, and journal entry responsibilities were not properly separated. Specifically, cash and checks were received and deposited by the same employee who prepared checks, recorded transactions, and reconciled the bank accounts. In addition, one employee was also responsible for preparing expenditure vouchers and recording expenditure transactions. Further, the District allowed one employee to prepare, approve, and enter journal entries into the accounting records.

The District did not adequately separate employee responsibilities. Consequently, district assets were subject to loss or theft and financial records could not be relied upon.

Recommendations

To help ensure that no one employee controls a transaction cycle, the District should implement procedures that separate the following incompatible responsibilities: receiving and depositing revenues, recording cash receipts, preparing checks, and reconciling district bank accounts; preparing expenditure vouchers and recording expenditure transactions; and initiating, approving, and recording journal entries. If an employee must perform incompatible responsibilities, a district administrator should review and approve transactions and written reconciliations.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow the School District Procurement Rules or the USFR guidelines for the nine purchases tested. Specifically, the District did not issue invitations for bids or requests for proposals for purchases exceeding the sealed bid threshold, and did not obtain oral and written price quotations for purchases requiring them.

The District did not follow any competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,899.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,899

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction materials, or services exceeding \$32,899.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899, and oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

The District should maintain an accurate capital assets list

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets and to ensure they are properly identified and accounted for. However, the District did not update its capital assets list or perform a physical inventory in the last 3 years. In addition, the District did not reconcile capital acquisitions to capital expenditures or reconcile the current year's list to the previous year's list.

The District did not protect its investment in capital assets.

Recommendations

The following procedures can help the District ensure that its capital assets are adequately controlled:

- Prepare and maintain a current capital assets list of items costing \$5,000 or more and with useful lives of 1 year or more, and a current stewardship list of all equipment items costing \$1,000 or more, but less than \$5,000. Include all required information for each item on the capital assets and stewardship lists.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year and the prior year's capital assets list to the current year's list, and make all necessary corrections.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describes the information that should be recorded on the capital assets and stewardship lists.

The forms on USFR pages VI-E-13 and 14 may be used to reconcile capital assets additions to capital expenditures and the current year's capital assets list to the prior year's list.

- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the physical inventory list to the capital asset and stewardship lists, and add items to or remove items from the lists as necessary

Instructions for performing a physical inventory of capital assets are listed on USFR pages VI-E-8 and 9.

The District's expenditure budget and annual financial report should be accurate and complete

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. To help provide that information, the District is required to adopt an expenditure budget each year to inform parents and district taxpayers how it will spend the public monies it receives and to budget expenditures within statutory budget limits. The District is also required to prepare an annual financial report (AFR) that includes information compiled from the District's accounting records. The AFR should provide accurate information to the public and to agencies from which the District receives funding.

However, budgeted and actual revenues and expenditures reported in the AFR did not agree with the District's revenue and expenditure budgets or accounting records.

Recommendations

To help ensure accurate and complete reporting of financial information in its expenditure budget and AFR, the District should:

- Review the expenditure budget before it is adopted to ensure that all applicable funds are included and the budgeted expenditures are within statutory budget limits.
- Require a second employee to ensure that information has been provided for all district funds in the AFR and that amounts reported agree with the revenue and expenditure budgets and the accounting records.

The District's student attendance records need improvement

The District's system for calculating and reporting student attendance was inadequate.

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. However, the District did not retain documentation to support membership and absences reported to ADE. Also, the District did not accurately record entry and withdrawal dates in its attendance records.

Recommendations

To help ensure the District receives the correct amount of state funding, the District should retain documentation to support attendance reported to ADE. The documentation should include student entry and withdrawal forms, attendance cards, and membership and absences reports. Further, a second district employee should verify that student entry and withdrawal dates on the forms agree with those in the District's attendance records.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.